



Emerging Market Equities and Outlook for 2019

Sam Vecht

January 2019

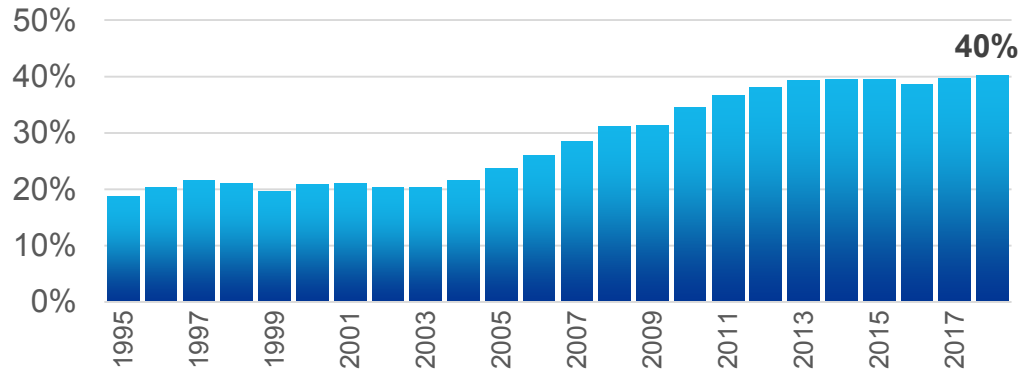


BLACKROCK®

FOR PROFESSIONAL CLIENTS / QUALIFIED INVESTORS ONLY

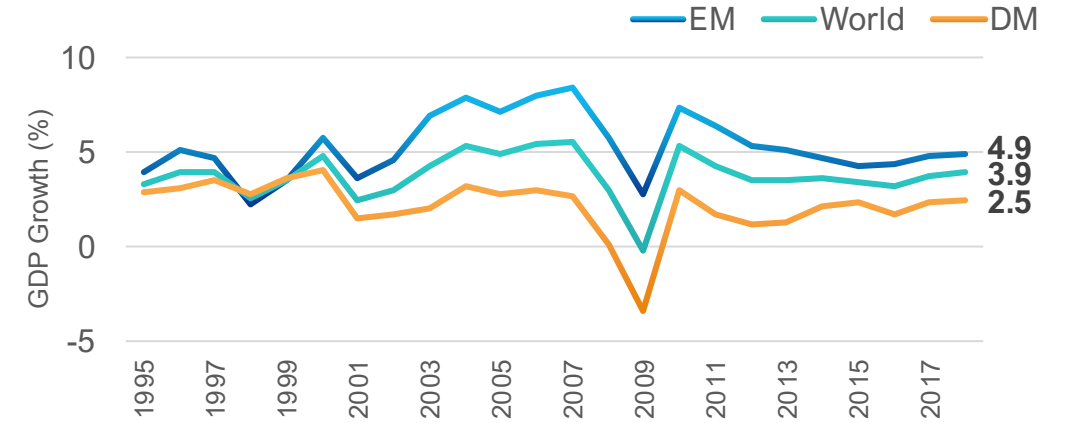
GEM growth story remains intact: GEM region continues to lead global growth.

Significant share of global GDP



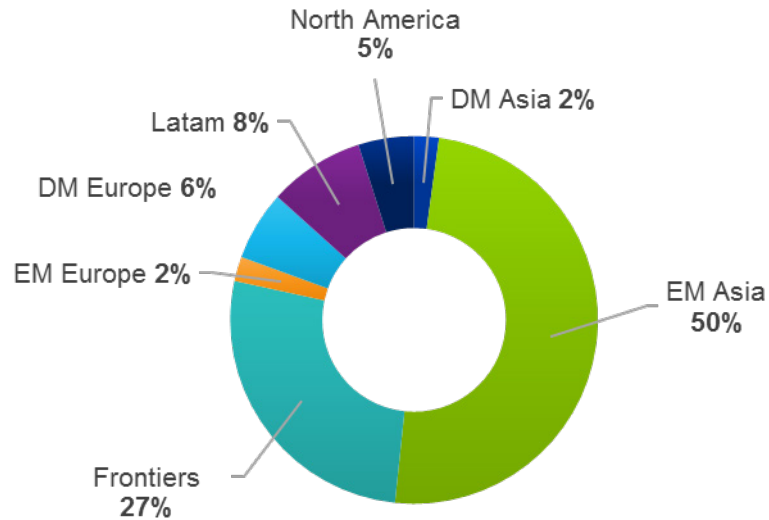
Source: IMF World Economic Outlook, as of end April 2018.

GEM GDP growth is leading vs World and DM



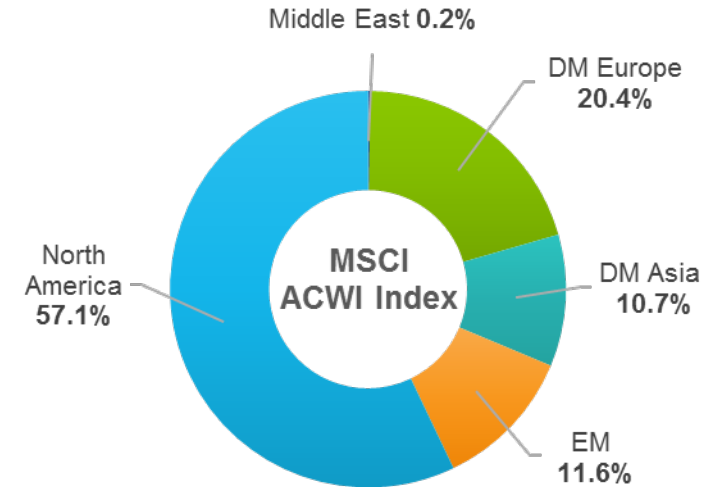
Source: IMF World Economic Outlook, as of end April 2018.

EM is nearly 60% of the world's population



Source: IMF World Economic Outlook, as of end April 2018.

Yet the weight of EM in the global equities index remains low

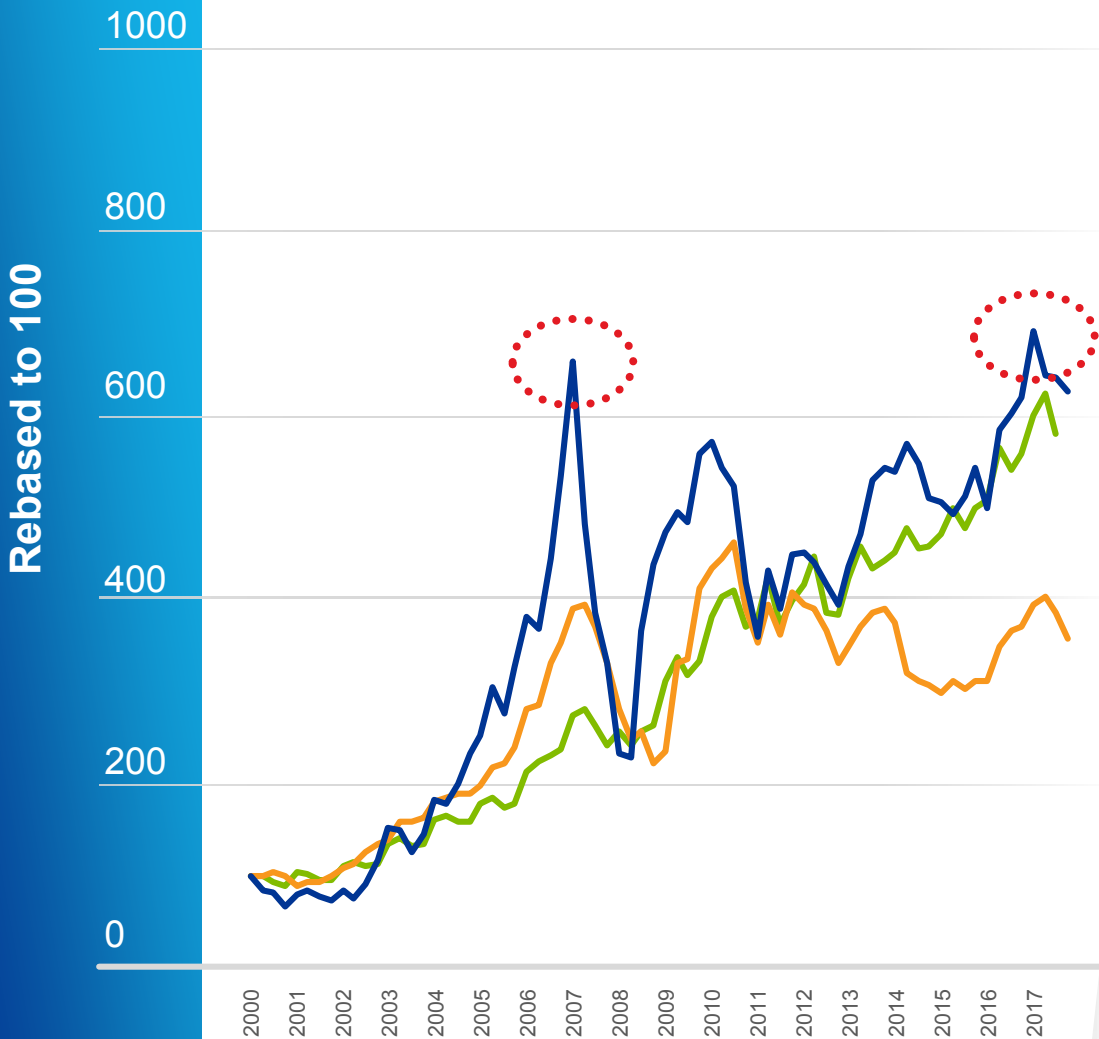


Source: BlackRock, MSCI, as of end November 2018.

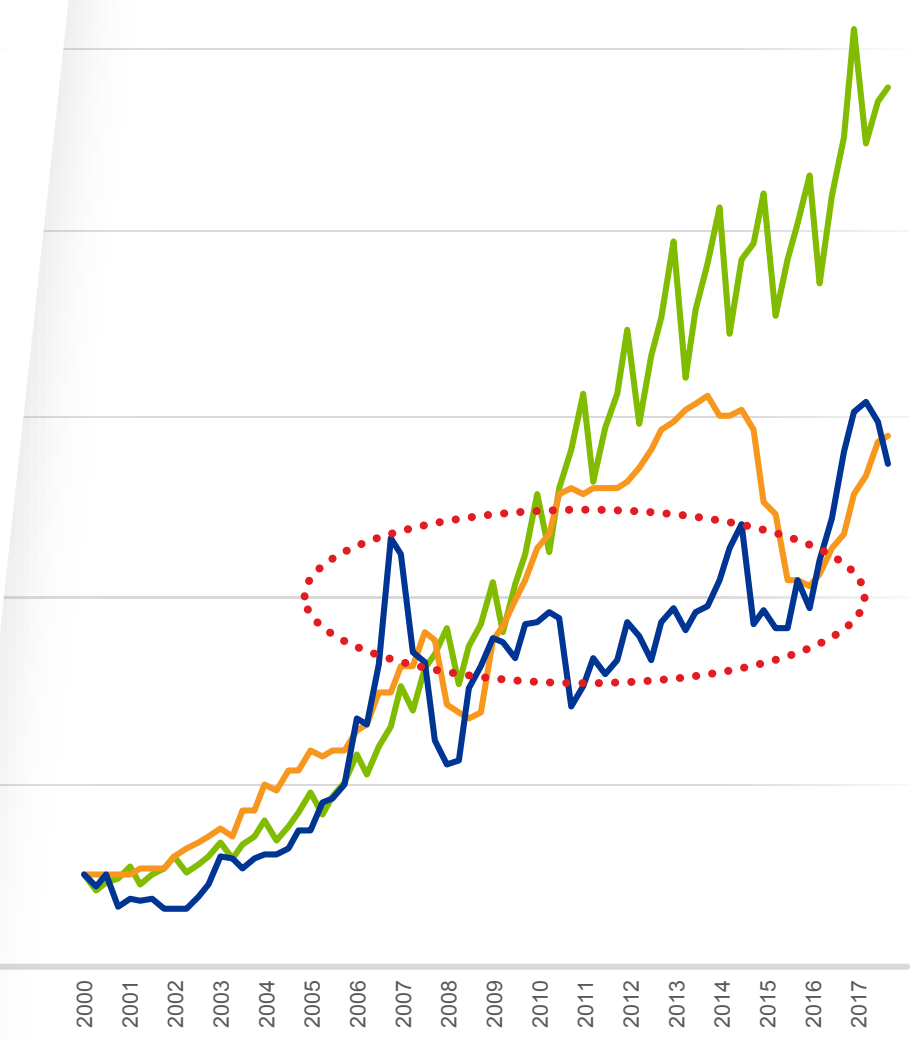
But GDP is a poor proxy
to market performance
(so are earnings).

GDP Growth vs Earnings vs Market Returns

India



China



- GDP Growth
- Earnings
- Returns

Source: Bloomberg, MSCI, in USD, based on quarterly data for MSCI India and MSCI China net total return indices, as at end September 2018. The figures shown relate to past performance. Past performance is not a reliable indicator of future results and should not be the sole factor of consideration when selecting a product or strategy. Index returns are for illustrative purposes only and do not represent actual Fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index.

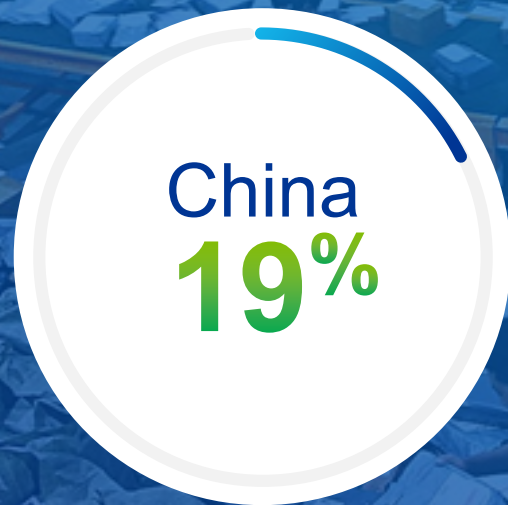
A large warehouse filled with cardboard boxes, with workers sorting them on conveyor belts. The scene is overlaid with a blue tint.

EM consumers – a mighty trend?

FOR PROFESSIONAL CLIENTS / QUALIFIED INVESTORS ONLY

MKTGM0119E-712493-613

Online sales
twice that of US



Online sales volume on China's "Singles Day"
(11-11) is now 5x of US's Black Friday



Total daily online sales (US\$ bn)

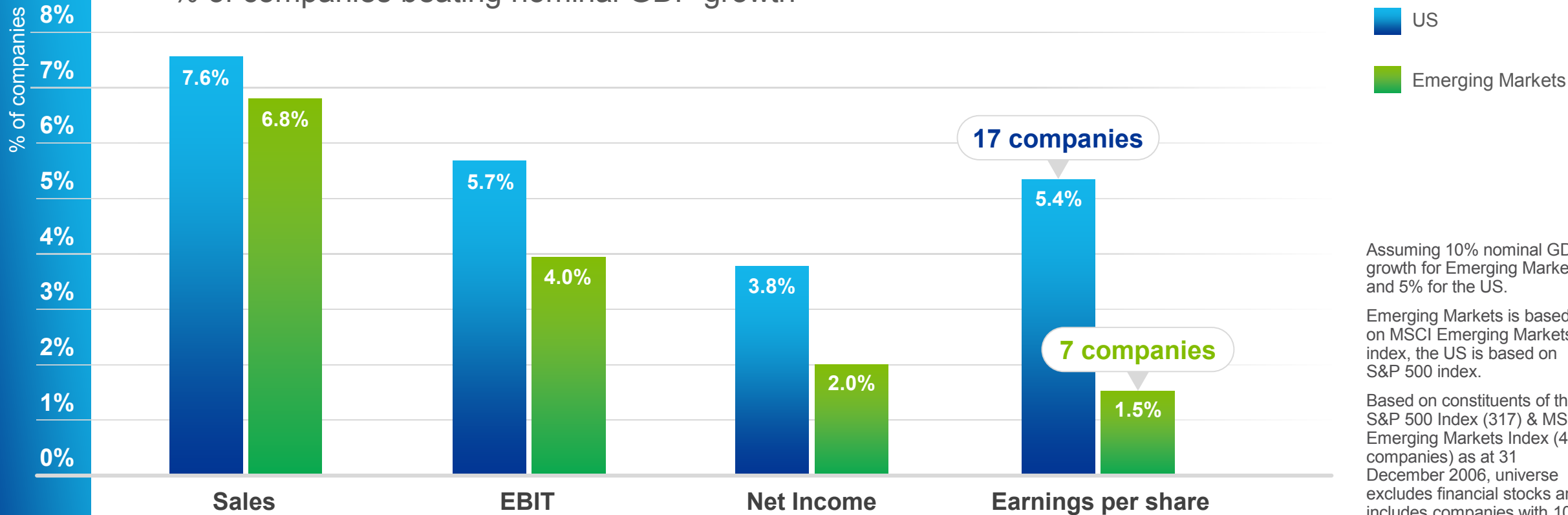
■ Singles Day (China) ■ Black Friday (US)

For illustrative purposes only

Blackrock has not acquired any rights or license to reproduce the trademarks, logos and images set out in this document. The trademarks, logos and images set out in this document are used only for the purposes of this presentation.

Emerging Market 'compounders': Still few and far between

% of companies beating nominal GDP growth



- The time period under review was a good period for Emerging Markets, less so for Western world.
- While EM companies grew sales, they were worse at growing profits.
- The chance of finding a 'compounder' in the US is more than 3 times higher than in EM.

Assuming 10% nominal GDP growth for Emerging Markets and 5% for the US.

Emerging Markets is based on MSCI Emerging Markets index, the US is based on S&P 500 index.

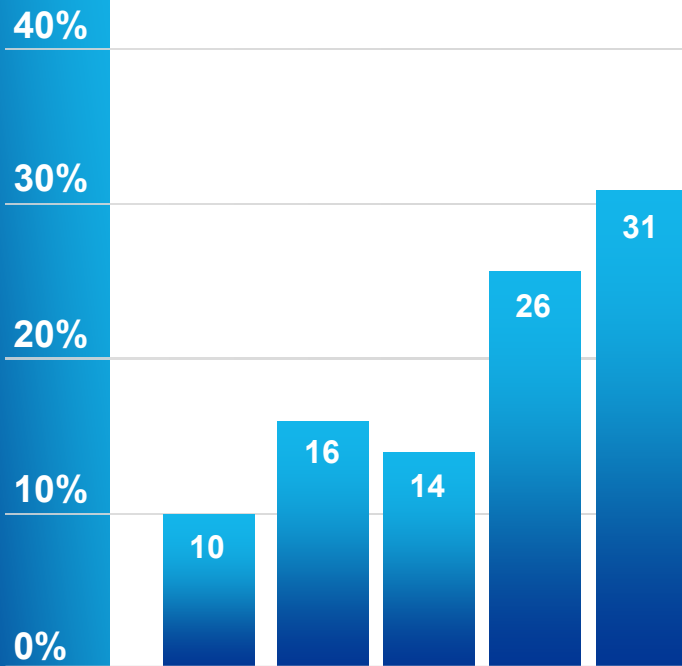
Based on constituents of the S&P 500 Index (317) & MSCI Emerging Markets Index (455 companies) as at 31 December 2006, universe excludes financial stocks and includes companies with 10 years of data.

Source: BlackRock, MSCI, S&P as at 31 December 2016. All data is nominal in local currency.

The time to consider EM is not when most people would expect

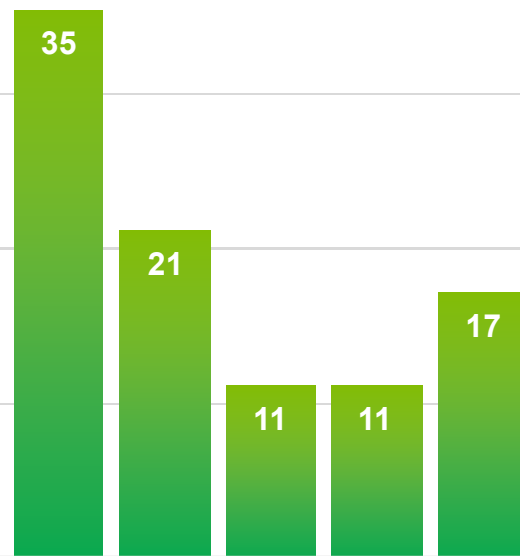
When valuations are cheap

Annualized returns of markets by yield



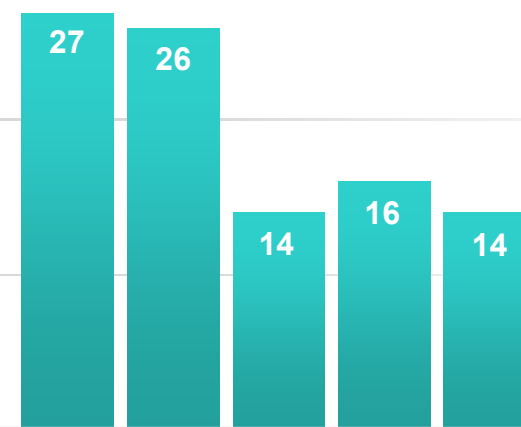
When currencies are weak

Annualized returns of markets by FX



And GDP growth is not the focus

Annualized returns of markets by GDP growth



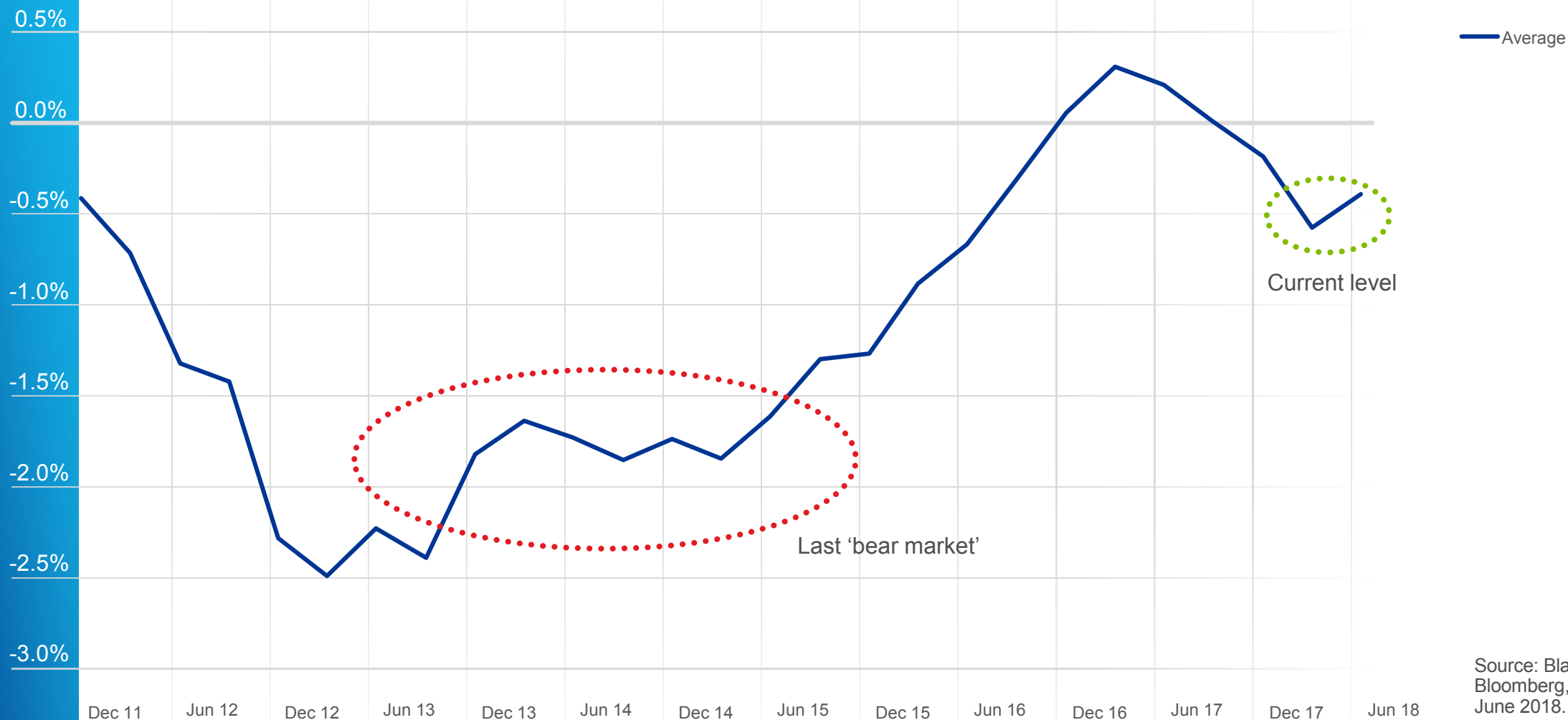
Past performance is not a reliable indicator of current or future results.

Rotation strategies within developing markets 1976 – 2013. Utilizes the study's 85-country database of annual returns, which covers numerous developing markets including frontier as well as emerging markets. The study's authors followed a market-rotation strategy, ranking emerging markets by factor over a prior period, typically a year. They assigned countries to quintiles from the lowest-ranked to the highest-ranked groupings. They invest on an equal-weighted basis in the markets of each quintile, and record the total return in US dollars. Markets are re-ranked annually, bringing in additional countries once data becomes available, and the strategy is repeated for the 38 years from 1976 to 2013. Source: Elroy Dimson, Paul Marsh, and Mike Staunton using data from the DMS database, the IMF, Mitchell, Maddison, and Thomson Reuters DataStream.

No excess built in the system for EM









Current Account (CA) + Foreign Direct Investment (FDI):
Average for Brazil, Mexico, India, Indonesia and South Africa

Current Account + Foreign Direct Investment as a % of GDP



Source: BlackRock, Bloomberg, as at end June 2018.

Weather Map – constructive environment for EM beta

Global conditions	Down/Low  Up/High	Growth is slipping but cost of capital is rising
Macro cycle		Activity is weakening and liquidity is reducing, but could be close to a turning point, currencies are weakening and bond yields are rising
Political cycle		Reforms are coming into effect, but populist leaders being elected
Earnings revisions		EPS revisions are increasingly negative, but normal
Valuations (spot)		P/E is below 13x, 19 st percentile EM is cheap vs DM with the gap increasing*
Valuation (Cyclically adjusted)		P/B is 1.6x, 10 th percentile, EM is 1cheap vs DM*
Positioning		Global Mutual funds are still underweight EM by ~7% (vs MSCI ACWI and MSCI ACWI ex US)**
Flows		EM Equity inflows were US\$70B in 2017, US\$15B into active funds YTD**

Past performance is not a reliable indicator of current or future results. Red colour refers to a bad condition, green colour refers to a good condition, grey colour refers to a current stage. Any opinions, forecasts represent an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation.

*Based on MSCI Emerging Markets and MSCI World Indices.

**Refers to emerging market funds globally. Source: Lipper, EPFR, JP Morgan, BlackRock, as at end October 2018.

Source: BlackRock, Goldman Sachs, Lipper, EPFR, JP Morgan, Bloomberg, as at end November 2018.

Risks

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. You may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value.

Important Information

This material is for distribution to Professional Clients (as defined by the FCA or MiFID Rules) and Qualified Investors only and should not be relied upon by any other persons.

Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: 020 7743 3000. Registered in England and Wales No. 2020394. For your protection telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited.

For qualified investors in Switzerland: this document shall be exclusively made available to, and directed at, qualified investors as defined in the Swiss Collective Investment Schemes Act of 23 June 2006, as amended.

Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

© 2019 BlackRock, Inc. All Rights reserved. BLACKROCK, BLACKROCK SOLUTIONS, iSHARES, BUILD ON BLACKROCK and SO WHAT DO I DO WITH MY MONEY are registered and unregistered trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.